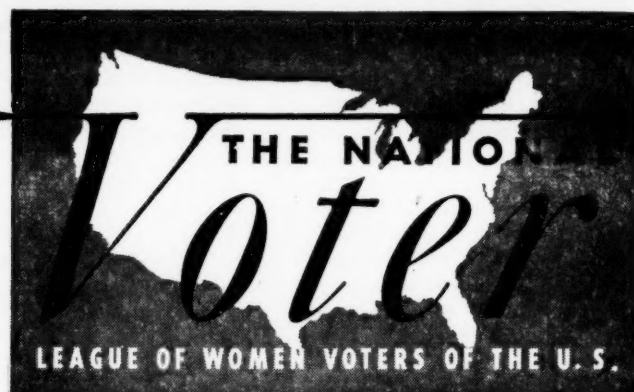


April, 1958



1026 17th STREET, N.W., WASHINGTON 6, D. C.

QUESTIONS AND ANSWERS

on

TARIFFS AND TRADE

Q. What about "cheap foreign labor"? Won't our domestic industry, with its high wage scale, always be undersold by goods made in other countries?

A. It is not possible to make an accurate comparison of American and foreign wages and other costs of production because of the difficulties involved in setting up comparative costs. American wages vary by more than 50 percent in various sections of the country. Great differences exist between wages paid in large and small cities. Foreign wages are similarly affected by various factors.

Moreover, hourly wages are not significant in themselves. One needs to know cost-of-living figures in the countries being compared, including the needs of workers in various areas and climates, etc.

On the basis of general information available, a direct comparison of hourly wages between the American worker and the foreign worker is relatively meaningless. The foreign worker's fringe benefits are much greater percentage-wise than the American worker's. This fact tends to narrow the gap.

As a general observation, American wages are higher than foreign wages. However, the American worker's productivity—the highest in the world, thanks to natural resources, modern machinery, acquired skills, abundant capital, efficient management — leads to lower unit production costs. This fact makes it possible for American

export industries, despite the payment of high wages, to compete in world markets with foreign industries paying lower wages.

Q. Doesn't foreign trade mean fewer jobs for American workers?

A. It usually works just the opposite. Foreign trade (either producing or servicing exports, or handling, distributing or processing imports) creates a job for one out of every 14 workers in the United States. Foreign trade is their job security, their livelihood. More trade will create more jobs; less trade, more unemployment.

Take one case study as an illustration—the Caterpillar Tractor Company. Caterpillar testified before the House Ways and Means Committee that it believed the facts cited for its company were of "general application to many other concerns and industries."

In 1957, sales to foreign countries were nearly 42 percent of total sales. In the last quarter of 1957, "when a rapid business decline had set in, foreign business exceeded 50 percent of the total. Whereas domestic U. S. sales fell 13 percent for 1957 as a whole, foreign business increased 9 percent."

What did these foreign sales mean to American workers in this company? The company told the committee: "Without its export business, Caterpillar would not need the valuable services of at least 40 percent of its people em-

ployed in the United States. At the peak of 1957, this would have meant about 15,500 people."

Q. Do we sell as much as we buy?

A. We sell more than we buy. In 1957 we exported about \$19.5 billion of goods (exclusive of military). We imported about \$13 billion of goods. The difference, \$6.5 billion, the excess of what we sold over what we bought, known as "the dollar gap," was the largest it had been in 10 years. And countries who bought from us would have had difficulty doing so had they not earned dollars by selling their goods to us.

Q. Does the United States need to export?

A. Yes. Important segments of U. S. industry are dependent on export markets. Our volume of export business last year exceeded the domestic retail sales of all automobiles, automobile parts and accessories. It exceeded the dollar volume of all home building except farm dwellings. It was greater than all farm income including crops, livestock, etc.

For certain segments of industry the proportions of output sold abroad ran high, for example 40 percent for tracklaying tractors, 26 percent for construction and mining equipment, 20 percent for aircraft, 19 percent for trucks, 14 percent for coal, 11 percent for machine tools.

Q. Does the United States need to import?

A. Yes. American industry is heavily dependent on foreign raw materials, and this dependence is found to increase as our economy continues to expand.

The major categories of our imports last year in descending order of dollar importance were: petroleum and fuel oils, non-ferrous metals, coffee, newsprint and paper materials, finished textile manufactures, sugar.

Of the \$13 billion of imports, \$6.1 billion were for foreign raw and partly processed materials upon which our economy depends. Without tin, nickel, manganese, chrome, cobalt—most of which are imported—whole industries would be seriously affected. Of the remaining approximately \$6.9 billion of imports, \$3.3 billion consisted of foodstuffs, principally coffee, tea, cocoa, bananas, spices and nuts; \$3.5 billion consisted of finished manufactures. It is estimated that of these imports, only \$2 billion offered direct competition to some segments of our domestic industry.

Q. Do imports cause unemployment in the United States?

A. Imports are often blamed for the falling off of business in some industries, when the real cause is something else. Changes in technology and consumer tastes, inefficiency in management or production, lack of enterprise, and various other economic factors often affect the competitive position of industries. Often these causes are overlooked and imports are blamed for the adverse competitive position of some industries.

Some sectors of the textile industry complain, for example, about foreign competition when possibly it is our preference for drip-dry synthetics—not Japanese-made textile imports—which brought about the decline from 1950 to 1957 in our production of cotton textiles.

Q. What about automobiles, machine tools, chemicals, cotton goods? Aren't imports of these a threat to domestic industry?

A. Again, we sell more than we buy. We see imports; we do not see exports, and we wonder if im-

ports are threatening our domestic business.

We see foreign cars on our streets and conclude that the balance is in favor of imports, although the ratio of exports to imports in the automobile industry is almost 4 to 1. In 1957 we imported \$304 million of foreign vehicles; we exported \$1.3 billion of the products of our automobile factories.

We see foreign machine tools and conclude that our markets are being injured, although in 1957 the excess of exports over imports on finished machinery of all types was the difference between \$400 million and \$32 million.

The chemical industry, during the 1953 hearings on renewal of the Trade Agreements Act, claimed increased imports would injure its business. What has happened between then and now? Last year we imported \$274 million of chemicals (approximately \$20 million more than in 1953) and exported \$1.4 billion (almost double the 1953 level).

In 1957 we sold to Japan over \$1.4 billion of American goods and bought from Japan less than \$500 million in all categories. We sold about five times as much raw cotton to Japan as we bought in cotton textiles from Japan. Purchases of American cotton, soybeans, grains, machinery, petroleum, metals and ores have made Japan America's biggest customer next to Canada. The importance of these purchases to the American economy would seem to outweigh by far the possible problem created by Japanese competition to only a very few American industries.

Q. Do imports jeopardize some American industries essential to our national defense?

A. This question is based on the "defense essentiality" argument that unless American industries essential to defense are protected from imports, output will fall to such a low level that it will not provide a base for rapid expansion, and skills will not be developed since their acquisition requires long periods of training and the maintenance of an active research program.

No one will argue with the need to meet adequate defense requirements. However, to quote the *New*

York Times, "The national defense argument has been so overworked by industries seeking relief through tariffs or quotas against foreign competition that skepticism on this score is pardonable."

No generalized or broad statement can be made that imports have an adverse effect upon our defense base. Each case must be examined on its merits. This examination is carried out by the Office of Defense Mobilization and decisions reflect current needs, changing military demands and operational plans.

For example, the jeweled watch industry, earlier held essential to defense, is not now considered essential since defense requirements for jeweled timepieces and timing devices are less urgent as an outgrowth of the development of new weapons (ODM decision of February 28, 1958).

Wool textile producers' claims that imports of woolen fabrics should be curbed as a threat to national security are another example. The Office of Defense Mobilization on January 6, 1958, rejected the producers' claims and stated in a letter to the National Association of Wool Manufacturers that the industry's current and foreseeable productive capacity remains several times greater than military requirements. The industry is no longer as essential to defense as it was in previous periods of mobilization. Military requirements for wool textiles have dropped to levels less than half of those formerly indicated to be necessary in emergency periods.

Q. Is delegation to the President of Congress' power to set tariffs unconstitutional?

A. It was alleged in 1934, when the Trade Agreements Act was enacted, that the Act constituted an invalid delegation of legislative authority to the President. This same charge has been made each time the Act has been extended. On each occasion, it has been examined by the House Ways and Means Committee and debated in the Congress, and the Act has continued to be extended.

The Supreme Court has held that legislation authorizing presidential action is not unconstitutional if Congress lays down an

intelligible principle which the President must follow. Congress met the Court's requirements in the Trade Agreements Act and in the extensions of the Act. Congress prescribed the specific purposes to be accomplished in accordance with an understandable principle and subject to limitations on the President's authority.

Q. *Why is the President permitted to reject Tariff Commission recommendations in escape clause cases?*

A. The Tariff Commission considers only the question of injury to and relief for domestic industry. The President must consider a number of other questions in addition to examining the extent to which the recommended action will help the injured industry: the need to maintain export markets; the protection of American consumers from unnecessary price increases; national security; our foreign policy interests.

The President's final judgment must be based on a balancing of all the factors involved. Our trade policy is no longer a purely domestic issue. It is also a foreign policy issue with wide political and economic significance. Since the President has sole responsibility for the conduct of foreign relations, he should play a major part in the formulation and execution of foreign economic and trade policy.

Q. *Should the power to set tariffs be taken from the President and transferred back to Congress?*

A. Prior to 1934, the United States from time to time tried to reach agreement with other countries on trade matters through the negotiation of "reciprocity treaties." Unlike the executive agreements which were negotiated after 1934 under the Trade Agreements Act, these treaties required the advice and consent of the Senate before they could come into effect. With few exceptions, such treaties did not become effective because of the difficulty of securing legislative ratification by the United States and other countries.

History clearly demonstrates that the process of negotiating a reciprocity treaty acceptable to both sides is very difficult.

Such a treaty involves naming specific commodities upon which tariff concessions are proposed. The



From the PRESIDENT'S DESK

The announcement I must make to you is mixed with regret and pleasure. Miss Muriel Ferris, who has been on the national staff for 13 years—five as Congressional Secretary and eight as Executive Secretary—has resigned, and Miss Dixie Drake, who has been on the national staff for six years, is our new Executive Secretary.

Miss Ferris was at the helm while we were working through a difficult transition period from a small operation to what has become big business. My association with her has been an unusually close and happy one, from beginning to end. I am glad she is now able to move on to a position which will provide her with a new and challenging experience.

Her new post is with the New York State Department of Commerce. As Senior Business Consultant, a great part of her time will be spent in following legislation in Congress which has a bearing on the business and economy of New York State.

problem of getting the two-thirds vote necessary for ratification involves many local producing interests, and the sum of these interests outweighs the larger national interest in terms of votes.

Because of the nature of the problems involved in negotiating trade agreements with other countries, Congress concluded that the responsibility for action should be placed upon the President rather than retained by Congress. The authority delegated to the President has always been for a specified period; each time the Trade Agreements Act has been extended, Congress has had opportunity to review administration of the law.

Q. *What is the objection to the use of import quotas?*

A. Quotas are one of the severest types of control that governments can place on trade. By determining the quantity of goods coming into a country, they lead to a widening of the powers of a government over

Needless to say, she will retain her membership and deep interest in the League. She has been an invaluable staff member whose record has been outstanding and with whom our ties are strong. Miss Ferris leaves us knowing well our deep gratitude to her.

We are indeed fortunate to have Miss Drake ready to step into the place vacated by Miss Ferris. Miss Drake has been Assistant Executive Secretary since 1956. For three years she was Executive Director of the Georgia League. She joined the national staff in 1952, as Organization Secretary, and in 1956 became Program-Organization Secretary. She has done a great deal of field work and has also served as Convention Secretary. Her varied experience gives her the background which will enable her to exercise the duties of Executive Secretary with competence of a high calibre.

The League is enormously fortunate to have the loyalty and devoted service of people as outstanding as Miss Ferris and Miss Drake. We wish them both continued success.

Ruby Maim Lee

the economy of a nation and have an adverse impact on the free enterprise system itself.

Quotas, even more than tariffs, create uncertainty and reluctance to develop and expand trade on the part of foreign exporters, American importers, and American manufacturers consuming imported materials.

Quotas create more problems than they solve. They limit taking advantage of price changes in national and international markets; remove competition; eliminate incentives to increase efficiency and improve production; close off trade. They disturb political and economic relations which we have with friendly governments. Their establishment and operation are complex, involving as they do the allocation of the volume of permitted imports among exporting countries and American importers. Their use entails great administrative difficulty and invites abuse.

KEEPING UP WITH LEAGUE PROGRAM

LOYALTY-SECURITY: The House Government Operations Committee on March 5 reported by unanimous vote a bill (H.R. 2767) to amend a 1798 statute regulating the "custody, use and preservation" of government records in order to prevent the law's use in "withholding information from the public or limiting the availability of records to the public."

Meanwhile, the Constitutional Rights Subcommittee of the Senate Judiciary Committee began hearings on the bill's companion measures in the Senate (S. 921 and S. 2148).

Hearings before the Senate Internal Security Subcommittee were held from February 19 through March 5 on S. 2646, introduced by Senator Jenner (R., Ind.), to limit the appellate jurisdiction of the Supreme Court in eight areas, including the federal loyalty-security programs. The subcommittee had previously approved the bill (August 8, 1957) but was ordered by its parent body, the Senate Judiciary Committee, to hold further hearings. A wide range of opinion was heard, including a letter from the Attorney General stating that "this type of legislation threatens the independence of the judiciary." Meanwhile, Senator Butler (R., Md.) offered an amendment which would reverse several Court decisions, including *Cole v. Young*.

On March 3, the Supreme Court, in an 8-to-1 decision, held illegal the Army policy of granting less-than-honorable discharges to draftees found to be security risks on the basis of pre-induction activities. It also held (for the first time) that the courts could review discharges to see if they were beyond statutory authority.

WATER: On March 11 the House voted to authorize more than \$1.5 billion worth of flood control, navigation, beach erosion and power projects. The bill, S. 497, was passed by the Senate last year in a somewhat different version; it now goes to a conference committee.

The bill also authorizes the Corps of Engineers to provide wa-

ter storage to improve low flows downstream, on a non-reimbursable basis, and to provide for future municipal and industrial water needs, on a reimbursable basis.

Attempts to delete or modify projects were turned back by the House; on the contrary, it added 19 new ones. About 150 projects are now authorized. No appropriations were involved; Congress must vote the necessary funds.

The House defeated an amendment to give the President authority to veto individual projects in the bill. As the bill stands, the President would have to accept or reject it. President Eisenhower vetoed a similar bill in August 1956.

FOREIGN AID: Details of the loans to India were announced on March 4.

The Export-Import Bank loan will be \$150 million for 15 years with interest at 5.25 percent. For the first five years, India will pay interest but make no payments on principal (because of India's shortage of dollars). Some of this loan will be used to pay U. S. suppliers on commitments already made; some, to provide for general categories of equipment and services required by approved programs of India's Second 5-Year Plan. The Development Loan Fund loan will be \$75 million with varying interest rates: 5.25 to 5.75 percent to private industry; 3.5 percent to state-owned enterprises and public services.

It is believed additional loans will be needed before May 1961 if India is to achieve her goal of raising her annual per capita income from \$56 to \$66 by that time. India is attempting, by voluntary methods, to raise the standards of living of the many poverty-stricken millions of her population.

Hearings on the 1959 Mutual Security proposals are expected to be completed before the Easter vacation by the House Committee on Foreign Affairs, and the authorizing legislation probably will be debated shortly after Congress reconvenes April 14.

Mrs. John F. Latimer, Second

Vice President of the League of Women Voters of the United States, told the Committee March 13: "Through our economic and technical assistance programs we are helping to create new world markets, where we can advantageously sell our own products and buy those produced in other countries. So we believe that both aid and trade are essential parts of a forward-looking foreign policy and hope that Congress will give them both favorable consideration."

Recommended reading: *New York Times* magazine section, March 16, 1958, Senator Cooper (R., Ky.), "India: Crucial Test of Foreign Aid"; Senator Humphrey (D., Minn.), "New Marshall Plan of Funds and Food for India," March 10, 1958 (free press release from the Senator's office).

TRADE: As *The Voter* goes to press, over 100 organizations (including the League) are completing plans for a jointly sponsored national demonstration of support for a liberal trade program in Washington on March 27. The program calls for a major policy address by President Eisenhower at the evening session of the conference.

Recommended reading: Senator Douglas (D., Ill.), speech in the Senate, February 3, 1958, "Why a Meaningful Extension of the Reciprocal Trade Act and Membership in the OTC Should be Passed by the Congress," (free reprints from the Committee for a National Trade Policy, 1025 Connecticut Avenue, N.W., Washington, D. C.).

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